

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 IO-10 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04

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TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01

XMB-02 /099 W

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R 131500Z MAR 75

FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 8449

C O N F I D E N T I A L MONTEVIDEO 837

E.O. 11652: GDS

TAGS: EFIN, UY

SUBJECT: IMF AGREEMENT FORESEEN

REF: MVD 570

1. SUMMARY: A VISITING IMF MISSION DEPARTED MARCH 11 AFTER 10 DAYS OF INTENSIVE DISCUSSIONS HERE WITH THE CENTRAL BANK AND MINISTRY OF ECONOMY AND FINANCE. MISSION WAS REASONABLE SATISFIED WITH PRESENT AND PROJECTED GOU FINANCIAL MEASURES AND BELIEVE THESE STEPS LAY A BASIS FOR AN IMF STANDBY AGREEMENT WHICH THEY EXPECT TO CONSIDER IN WASHINGTON IN APRIL. MEANWHILE, THE UNDP HAS AGREED TO FINANCE AN AGRICULTURAL SECTOR ANALYSIS TO IDENTIFY PRIORITY NEEDS AND COORDIANTE INTERNATIONAL ASSISTANCE. EMD SUMMARY.

2. THE DELAYED SECOND-ROUND VISIT OF THE IMF TEAM CONSIDERING URUGUAY'S APPLIATION FOR A STANDBY AGREEMENT LEFT MONTEVIDEO REASONABLY SATISFIED THAT AN AGREEMENT COULD BE WORKED OUT. WHILE THE RESIDENT IMF REPRESENTATIVE HERE DECLINED TO GO INTO DETAILS, EMBASSY UNDERSTANDS MAJOR HURDLES ARE GOU COMMITMENT TO STABILIZATION PROGRAM. ON FISCAL SIDE, GOU LAST MONTH (REFTEL) RAISED GASOLINE TAXES, REDUCED CONSUMER SUBSIDIES AND LATER ANNOUNCED A NEW PROGRAM OF TAX ENFORCEMENT. IMF MISSION CONFIDENTIAL

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UNDERSTANDS THESE WILL BE SUPPLEMENTED BY FURTHER TAX AND BUDGET

MEASURES, SOME OF WHICH MAY BE IMPLEMENTED WITHOUT PRIOR PUBLIC ANNOUNCEMENT. A KEY STEP BEING CONSIDERED WOULD BE LIMITS ON GOVERNMENT EMPLOYMENT AND PUBLIC SECTOR, INCLUDING MILITARY, WAGE INCREASES.

3. ON THE MONETARY SIDE, NEGOTIATIONS ARE STILL IN PROGRESS TO BRING THE BANK OF THE REPUBLIC (BOR) UNDER THE EFFECTIVE CONTROL OF THE GOU MONETARY AUTHORITY, THE CENTAL BANK (CB). A PARTIAL MEASURE IN THIS DIRECTION WAS THE RECENTLY ANNOUNCED "ACUERDO PATRIMONIAL" WHICH WILL REAPPORTION BETWEEN THE CB AND THE BOR MAJOR ASSETS AND LIABILITIES. THIS AGREEMENT, WHICH TAKES EFFECT APRIL 1, HAS BEEN "HANGING FIRE" EVER SINCE THE CB WAS ESTABLISHED AND INDICATES SOME DIMINUTION IN THE BOR'S INDEPENDENCE. SPECIFICALLY, FOREIGN OFFICIAL AASETS AND LIABILITIES, INCLUDING THE COUNTRY'S LARGE GOLD RESERVES (\$700 MILLION AT FREE MARKET VALUE), ARE TRANSFERRED TO THE CB. IN A TYPICAL URUGUAYAN COMPROMISE, HOWEVER, THE COUNTRY'S VERY VALUABLE 300,000 OUNCE COLLECTION OF GOLD COINS WILL BE RESOLD TO THE BOR AT \$138 PER OUNCE. WHILE THE IMF MISSION CONSIDERS THE AGREEMENT A STEP IN THE RIGHT DIRECTION, THERE IS STILL CONCERN THAT THE BOR CONTINUES TO HAVE UNCONTROLLED CREDIT SOURCES AND LACKS THE RESERVE REQUIREMENTS AND OTHER CONTROLS EXERCISED BY THE MONETARY AUTHORITY OVER OTHER COMMERCIAL BANKS. THUS THE IMF CONTINUES TO PRESS FOR ADDITIONAL STEPS IN THIS AREA.

4. IMF MISSION APPARENTLY RECEIVED SOME ASSURANCES THAT FURTHER REFORMS ARE IN PROCESS AND ARE OPTIMISTIC THAT A STANDBY AGREEMENT CAN BE PRESENTED TO THE EXECUTIVE DIRECTOR IN APRIL.

5. THE UNDP SIGNED AN AGREEMENT MARCH 7 WITH THE GOU TO FINANCE A \$350,000 AGRICULTURAL SECTOR ANALYSIS. THIS WILL BE CARRIED OUT BY WORLD BANK SPECIALISTS AND IS A FORERUNNER OF MAJOR ASSISTANCE THE IBRD EXPECTS TO PROVIDE FOLLOWING THE SUCCESSFUL NEGOTIATION OF THE IMF STANDBY. THE PURPOSE OF THIS STUDY IS TO IDENTIFY PRIOTURY AREAS AND TO DEFINE ALTERNATIVE POLICIES. IT EXPECTS TO DEVELOP A DRAFT INVESTMENT PROGRAM AND IDENTIFY PROJECTS WHICH COULD BE FINANCED THROUGH COORDINATED EFFORTS OF THE INTERNATIONAL LENDING AGENCIES. UNDP DIRECTOR EXPECTS THE STUDY TO BE COMPLETED BY THE END OF 1975.

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